GLOBAL VALUE ADVISORS
A Division of Moody Aldrich Partners

International Small Cap

Second Quarter 2025

COMMENTARY

Total Returns (Net of Fees)+	Q2
GVA International Small Cap	**14.9%**
MSCI All Country World ex-USA Small Cap Index*	16.9%
MSCI All Country World ex-USA Small Cap Value Index	14.8%
MSCI All Country World ex-USA Small Cap Growth Index	19.1%

Regional Indices	Q2
MSCI Japan Small Cap	12.4%
MSCI United Kingdom Small Cap	21.7%
MSCI Emerging Markets Small Cap	17.2%
MSCI Europe ex UK Small Cap	18.7%
MSCI Pacific ex Japan Small Cap	12.9%

	GVA International Small Cap Net Return	MSCI ACWI ex-USA Small Cap Net Return*
1 Year	13.7%	18.3%
3 Years**	14.5%	13.5%
5 Years**	11.6%	10.7%
Since Inception**	4.7%	5.5%

*Benchmark | **Annualized | +Net of fee performance was calculated by retroactively applying the highest model fee for the composite which is the fee new clients would expect to pay based on the early adopter fee schedule (0.60%).

2Q25 Market Dynamics

The second quarter was marked by heightened volatility across financial markets. Investors scrambled to analyze the impact of chaotic changes in tariff policy, rising geopolitical tensions, soaring fiscal deficit estimates, monetary policy uncertainty, and ongoing worries about inflation. Despite all this, markets ended the quarter back at all-time highs, following an impressive rebound from the April lows reached after Liberation Day.

International and Emerging markets continued their outperformance trend experienced in the first quarter, as the US dollar weakened further. The US dollar depreciated by roughly 11% in the 1H, which was the largest decline in more than 50 years and most likely marked the end of its 15-year bull market cycle. The Global ex-US market outperformance was especially noteworthy considering the massive rebound in Magnificent 7 stocks. With this backdrop, Growth outperformed Value and Large cap stocks outperformed Small. Both of these “megatrends” were headwinds to GVA’s performance.

For the quarter, cheap companies with positive FCF and positive shareholder returns (GVA’s Advantaged Subset) slightly underperformed the market on a global basis. The net result was weak relative performance across GVA’s Global Equity, International Small Cap, and Emerging Market strategies for the quarter.

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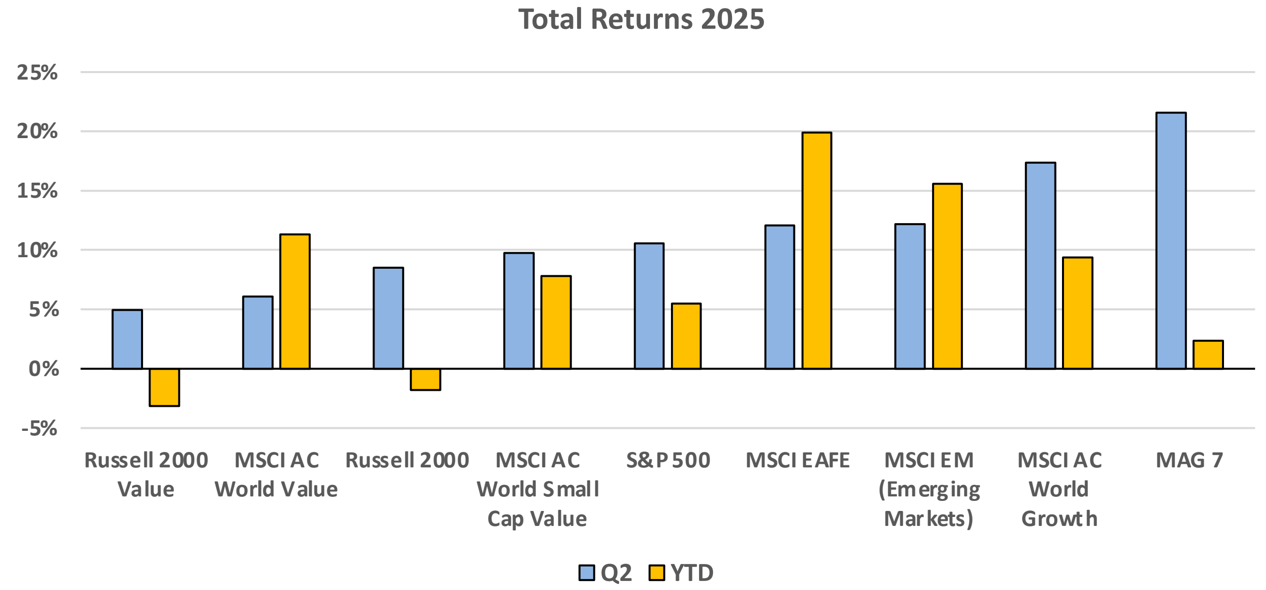

Source: Factset. MAG 7 = "Magnificent Seven" stocks – Apple (AAPL), Microsoft (MSFT), Alphabet (GOOGL), Amazon (AMZN), Nvidia (NVDA), Tesla (TSLA) and Meta Platforms (META)

Recession fears subsided and risk appetite returned in the quarter, as the initially announced tariffs were either lowered or suspended. Corporate earnings remain healthy and there is optimism around interest rates cuts coming from the Fed before year end. The US economy continues to be in fairly good shape, with the Fed's yield curve model indicating a less than 30% chance of a recession occurring in the next 12 months. Real GDP growth came in at a healthy 3.0% in Q2, following the 0.5% contraction posted in the first quarter. Inflation remains above the Fed's 2% target, with Core PCE running at 2.8% but there have so far been no dramatic spikes. Note that there is likely a lag effect from tariff impacts, so upcoming inflation prints will be closely watched. The labor market has softened a bit, but the overall picture is still positive. The economy remains close to full employment with unemployment rates hovering around 50-year lows at 4.2%.

International markets look more promising, especially for Value

International markets appear well positioned to continue their outperformance, especially if the US dollar is entering a long-term bear market. GVA remains significantly underweight US markets and heavily overweight International markets, especially Emerging Markets. Long term relative price underperformance and stretched valuation spreads vs the US market suggest we are long overdue for sustained period of outperformance in both International and Emerging Markets. The two charts below from BofA are a good illustration of the long-term upside potential for International and Emerging Markets, as well as the historical duration of USD cycles. From a contrarian standpoint, both of these studies suggest we are likely in the very early stages of outperformance.

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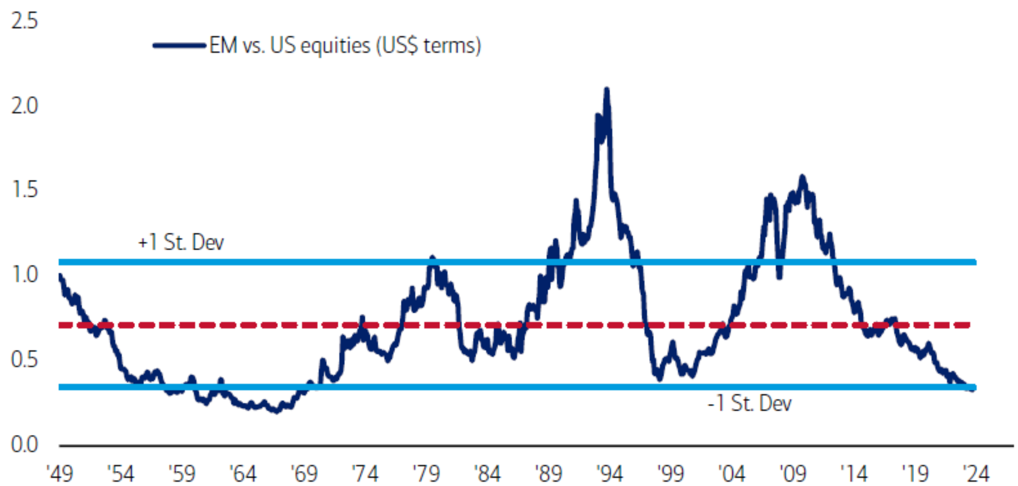
The Biggest Picture: AI eats commodities, Emerging Markets make commodities, US$ in bear, EM stocks at 50-year lows vs US (Chart 2), long EM...easy allocation decision.

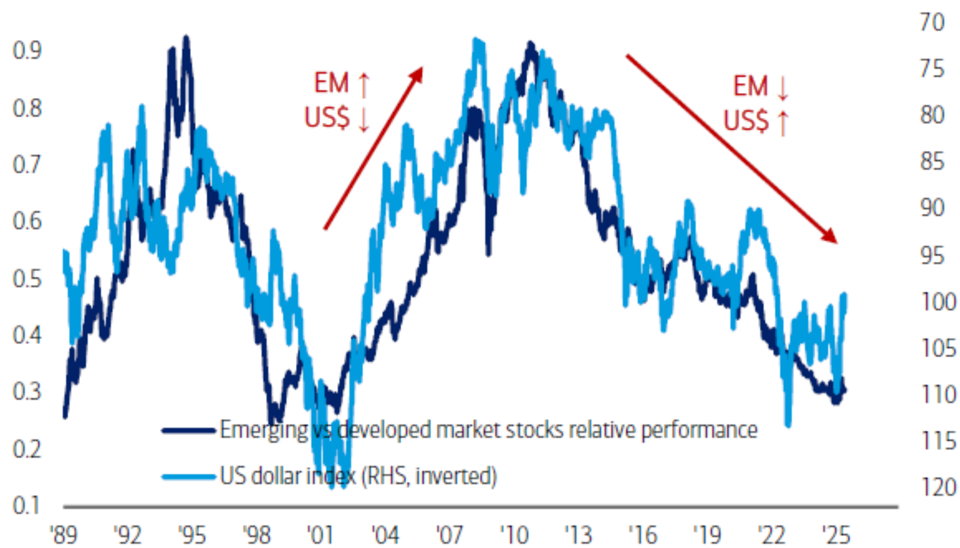
Chart 2: Long Emerging Markets
Emerging Market vs. US equities (relative price performance, USD)



Source: BofA Global Investment Strategy, GFD, Bloomberg

BofA GLOBAL RESEARCH

Chart 5: US$ bear positive for EM/International stocks
EM/DM stocks relative performance vs. US dollar index (DXY)

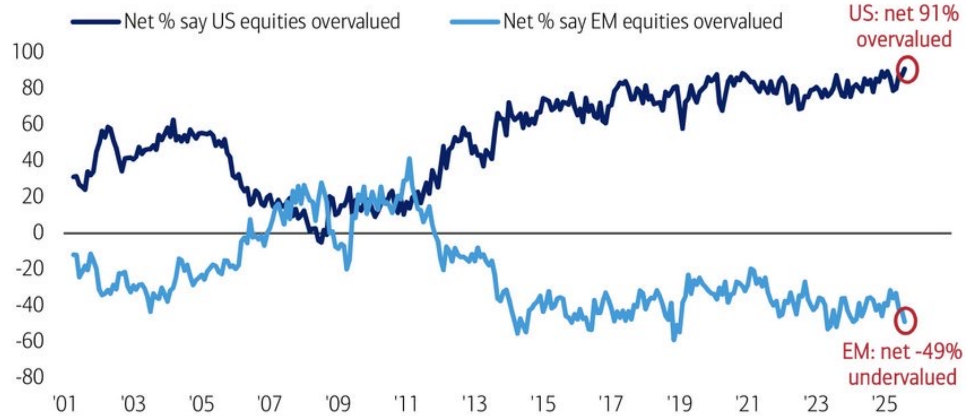


Source: BofA Global Investment Strategy, Bloomberg

BofA GLOBAL RESEARCH

GVA isn't alone in our worries around overstretched US valuations. A record 91% of fund managers surveyed in a recent BoA study now feel that US equities are overvalued. Compelling valuations can still be found in Emerging Markets. Note that the valuation gap between the US and EM has widened dramatically over the last decade.

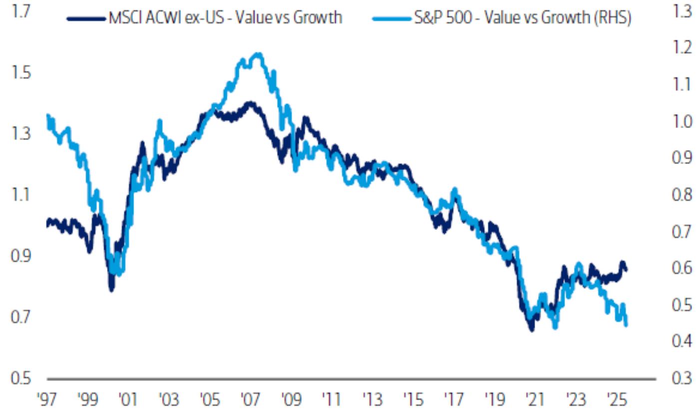
Chart 17: Record net 91% of FMS investors say US equities are overvalued
Net % say US equities overvalued vs Net % say EM equities overvalued



Source: BofA Global Fund Manager Survey.
BofA GLOBAL RESEARCH

An interesting dynamic is also unfolding with value stocks outside the US. Global ex-US value stocks may have finally reached their inflection point, with relative underperformance bottoming-out during the pandemic. The same cannot be said about US value stocks, which saw a similar reversal in relative performance, but then gave almost all its gains back (due largely to large cap Tech outperformance). History suggests that valuation spreads between growth and value have reached unsustainable levels and will lead to an eventual collapse US Tech stocks (ie Large, Growth, and US). If/when the market turns, GVA believes we will enter a multi-year cycle of outperformance of Small, Value, and International stocks. GVA's strategies are actively betting on all 3 of these trends occurring over the medium term.

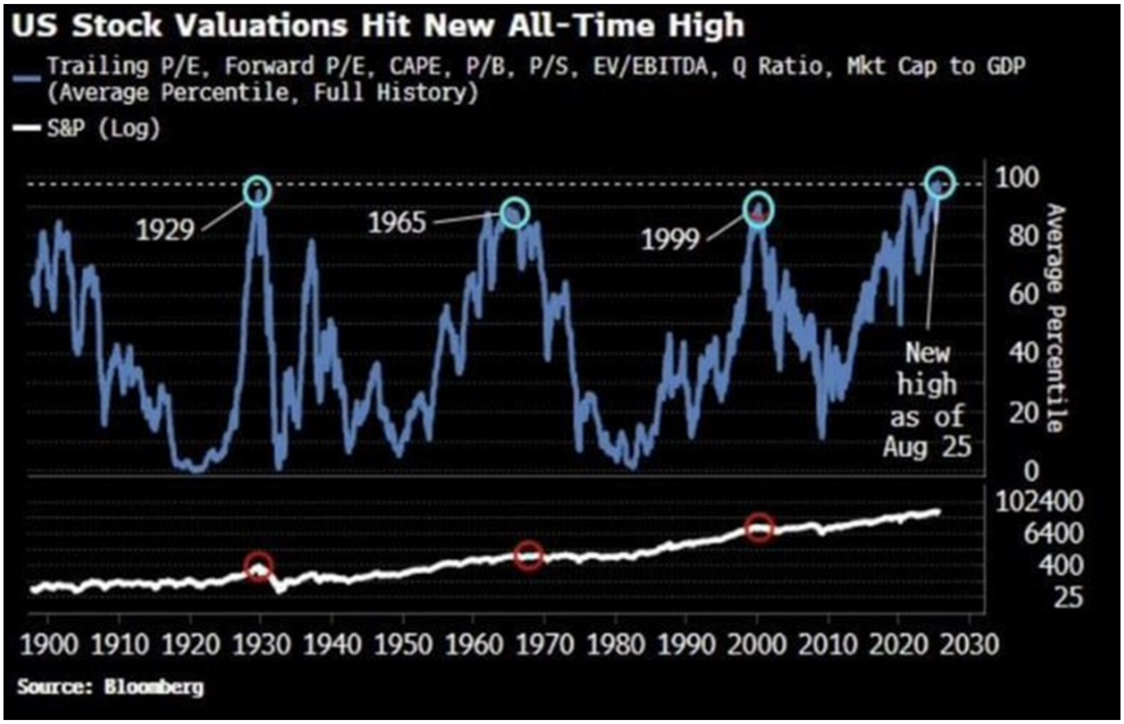
Chart 3: Value outperforming growth for global, but not US stocks
Value vs Growth: MSCI ACWI ex. US and S&P 500



Source: BofA Global Investment Strategy, Bloomberg, GFD Finaeon
BofA GLOBAL RESEARCH

Is anyone worried about this?

Or this? US stock valuations now higher than 1929, 1965, and 1999 peak valuations.



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The valuation spreads between Growth and Value, Large and Small, US and Non-US have reached unprecedented levels. History suggests that such levels are not sustainable and will ultimately revert. When this retracement happens GVA believes a multi-year cycle of outperformance of Small, Value, and International stocks should be expected. In that process, some sectors that have been avoided by investors over the past 15 years will regain market leadership. GVA's Q3 Market commentary will walk you through one of the most compelling investment opportunity it has identified: Natural Resources stocks.

Thank you for your interest in Global Value Advisors. We look forward to updating you again next quarter.

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The U.S. Dollar is the currency used to express performance. Returns are presented gross and net of management fees and include the reinvestment of all income. Net of fee performance was calculated by retroactively applying the highest model fee for the composite which is the fee new clients would expect to pay based on the early adopter fee schedule (0.60%). The annual composite dispersion is an asset-weighted standard deviation calculated for the accounts in the composite the entire year.

The standard investment management fee schedule for new business is as follows: 0.60% in perpetuity on all investments made prior to strategy assets reaching $150 million, thereafter, 1.00% on the first $25 million and 0.90% on all additional funds. Management fees are paid quarterly in arrears. Actual investment advisory fees incurred by clients may vary.

The information presented in the presentation contains analysis of GVA's Advantaged Subset. GVA's Advantaged Subset is a quantitative screen of the investable universe that identifies liquid companies with positive free cash flows and that have positive total return to shareholders.